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Unique Financial Services

AFSB



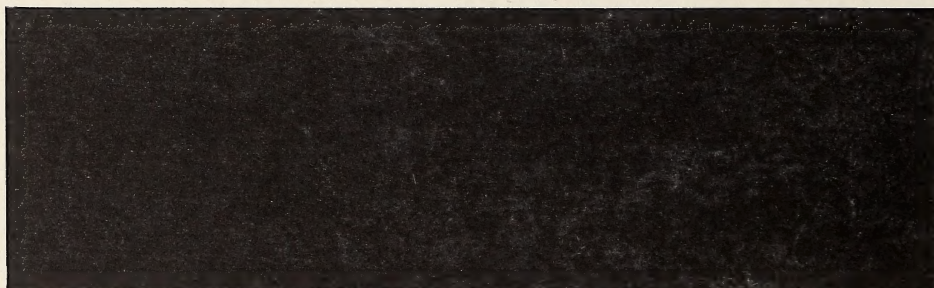
Annual Report

2006-2007

Unique Financial Services



AFB

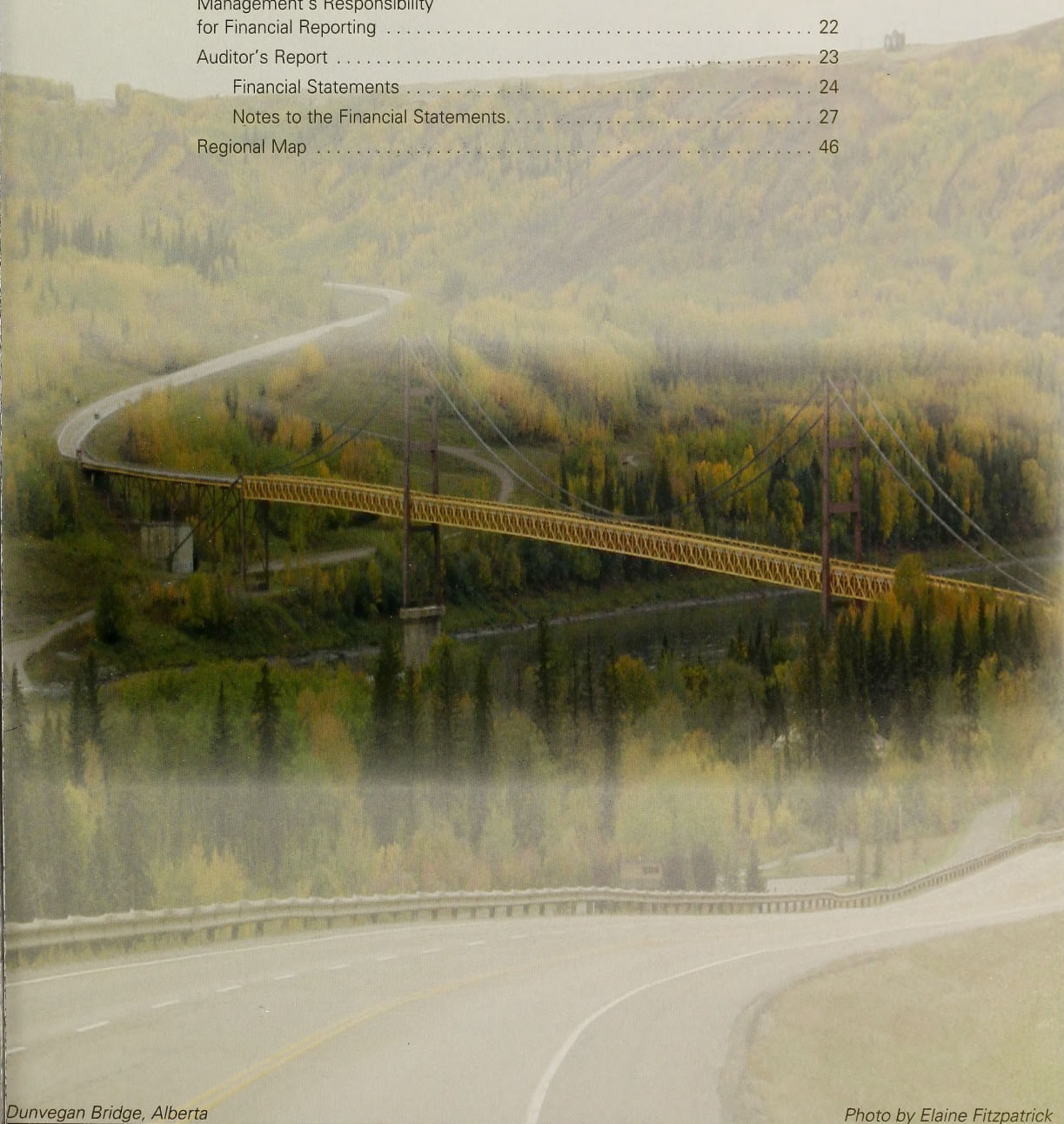


Annual Report

2006-2007

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Dunvegan Bridge, Alberta

Photo by Elaine Fitzpatrick

Letter of Transmittal

May 31, 2007

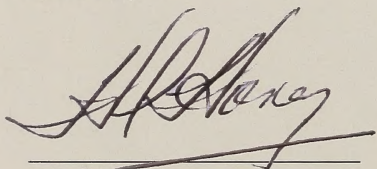
The Honourable George Groeneveld
Minister of Agriculture and Food
424 Legislature Building
Edmonton, Alberta
T5K 2B6

Dear Minister Groeneveld:

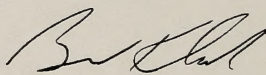
On behalf of the Board of Directors, we are pleased to submit the twelfth annual report of the Agriculture Financial Services Corporation.

As required by Section 15 of the *Agriculture Financial Services Act* (RSA 2000, c. A-12) the report contains a summary of the transactions and affairs of the Corporation, its revenues and the application of its expenditures for the fiscal year ended March 31, 2007. The report also contains audited financial statements, including a balance sheet, a statement of revenue, expense and surplus, and a statement of cash flows.

Yours truly,



H.D. (Harry) Haney
Interim Chairman



Brad Klak
President and Managing Director



Message from Minister Groeneveld

Opportunities of Transition

This past year has been a time of transition for our province and our farmers. Against the backdrop of an ever-changing landscape, today's producers are dealing with critical issues and challenges like never before. As a farmer myself and new Minister of Agriculture and Food, I recognize that Alberta faces unique obstacles, but we have never before had more opportunity to grow and diversify. I am optimistic that the agricultural industry is well positioned to move forward and capitalize on tomorrow's possibilities. Both the farming and agri-business industry will play a key role in Alberta's agenda for innovation and success.

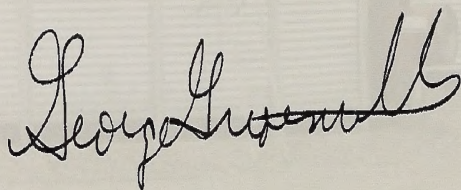
In 2006-07, producers faced financial challenges because of higher input costs, lower commodity prices and eroding reference margins. Our government responded by providing producers with one of the most envied suites of business risk management tools in Canada. Alberta reduced Production Insurance premium rates by 20 percent and increased government contributions for Spring Price Endorsement and Revenue Insurance Coverage. Our made-in-Alberta solution to eroding reference margins came through several enhancements to the Canadian Agricultural Income Stabilization (CAIS) program. The Alberta Reference Margin Pilot Project and the Alberta Margin Enhancement program provided much needed stability and support. Agriculture Financial Services Corporation (AFSC) also played a lead role in delivering several federal enhancements to the CAIS program.

We began the transition from the old Agricultural Policy Framework and are examining how the Next Generation of Agricultural Policy will drive the future direction of agriculture programs, initiatives and best practices. This process was set in motion with producer consultations across the nation. Information gleaned from these meetings will ensure that Alberta is poised to pursue new market opportunities while growing an innovative, profitable, and sustainable agriculture and agri-food industry.

As the year progressed, improving commodity prices and a heated Alberta economy increased the demands for more loans from AFSC. One of Premier Ed Stelmach's key priorities is "to grant farmers better access

to capital through AFSC and its partners." AFSC's lending portfolio was busier than ever, indicating positive market trends for Alberta. A new reality in our competitive global marketplace is being able to see beyond our cattle herds and grain fields, and turning our focus to the store shelves and dinner tables of the world. Alberta is committed to providing the backing to insightful, future-minded entrepreneurs who are moving in this direction.

AFSC has done a tremendous job of understanding the difficulties and challenges faced by producers and agri-business in Alberta. I congratulate AFSC's President and Managing Director, the management, and staff for consistently finding creative solutions to serve our agriculture and business partners. Under the strong leadership, strategic planning and good governance of the Board of Directors, AFSC has not lost sight of their vision to provide unique financial services to grow Alberta. I am confident that AFSC will continue to use its knowledge, expertise, and passion to grow a stronger and more viable agriculture industry.



George Groeneveld
Minister of Agriculture and Food



Chairman's Message



For everything there is a time and a season... AFSC has adapted and changed to respond to the ebb and flow of our clients' needs. We have seen many seasons of change in agriculture over the years. During the past year, we focused on consolidating the positive impact of restructuring the organization and paving the way for more efficient and effective delivery of our products and services. We helped our customers gain a better understanding of the advantages of using AFSC's products and services.

Late in 2006, AFSC bid farewell to Bob Splane, who provided vision and effective leadership to the Corporation for a number of years. On behalf of the Board, I would like to extend our sincere thanks to Bob for his dedication and hard work, and wish him well in his future endeavors.

On December 15, 2006, we welcomed Honourable George Groeneveld as our new Minister of Alberta Agriculture and Food. His wisdom and vision for the future are inspiring and we share his enthusiasm for developing and strengthening rural Alberta. We also thank former Minister Doug Horner for his leadership and foresight during some very challenging times for Alberta's agriculture industry.

In 2006-07, the Corporation focused on the following strategic priorities.

Develop National Policy on Risk Management

We continue to take an active role in the development of a national policy on risk management programs that are transparent, bankable, timely and responsive to producers' needs.

AFSC offers Alberta producers the most effective risk management tools in Canada. Our business is all about our customers and their success. We understand that managing business risk is the key component for building a strong, sustainable and viable agriculture industry. Our goal is to provide long-term solutions to the current and ongoing challenges faced by Alberta's producers.

Review and Update Lending Programs

Our lending programs are continually being reviewed and updated to better meet the needs of our primary producers and agri-businesses.

We have increased our ability to add value to our primary products and are focusing on the need to enhance our capability to finish and process products in Alberta. AFSC has well-trained and knowledgeable staff who understand both farm and commercial businesses in their local markets. We recognize that each operation has its own unique financial needs, from cash flow to capital investment. Alberta is well on its way to being strategically positioned to compete in today's world markets.

Improve Efficiency, Promote Customer Service Excellence and Understanding of AFSC's Services

I am confident that AFSC's dedicated staff will continue to provide Albertans with one of the country's most envied portfolios of risk management strategies and responsive lending solutions.

AFSC continually reviews its programs and consults with producers and businesses to ensure we are meeting their needs. Our adjusters are now able to complete field inspections online – a change which has improved



efficiency and claims processing time. Producers are no longer required to visit the office to renew their insurance contracts. Our hybrid lenders have improved our customer service capability by providing both farm and commercial loans in 38 field offices. AFSC placed CAIS Field Analysts in strategic locations throughout the province in order to assist producers.

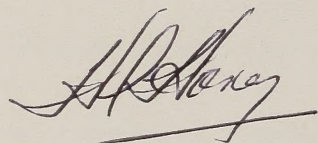
To further improve our service efficiency, the Corporation embarked on the myAFSC website initiative, whereby producers and accountants were provided electronic access to CAIS information, including processing status and detailed margin data. To further enhance our ability to take on multiple projects and improve Information Technology services, a new model of combining in-house and out-sourcing was implemented and replaced the entirely out-sourced model.

Become an Employer of Choice

We are pleased by the remarkable progression of AFSC's employee satisfaction scores and numerous stories from employees regarding what they see as an improved climate of trust and respect.

Our success in making a difference in the growth and sustainability of Alberta's rural communities is based on the high quality of employees working with AFSC. Our employees are motivated, dedicated and passionate about making a difference by offering excellent customer service. We are committed to equipping and empowering our staff to serve our customers with the expertise, dedication and sheer enthusiasm that will be unsurpassed in our industry.

We are proud of our accomplishments in making the transformation to better reflect our priorities towards becoming an employer of choice. On behalf of the Board of Directors, I would like to thank Brad Klak, President and Managing Director, the Executive Management Team and all our employees for effectively listening to the changing needs of our partners in agri-business and for being committed to their success.



H.D. (Harry) Haney
Interim Chairman

Corporate Governance

As a provincial Crown Corporation, AFSC serves in a public policy role for the Government of Alberta. The Board of Directors provides leadership and direction to the Corporation and oversees management and performance.

Mandate

The Board is responsible to the Minister of Alberta Agriculture and Food. The roles and responsibilities of the Board are set out in the *Agriculture Financial Services Act* and in a Memorandum of Understanding (MOU) between the Minister and the Board, which is updated annually.

Composition of the Board

As of March 31, 2007, the Board consisted of seven directors. There are six independent directors and the President and Managing Director. The Minister of Agriculture and Food appoints all Board members. The Board members have varied skills and experience and are entrepreneurs, primary agricultural producers, and agri-business owners/operators. The Board Chair and Committee Chairs are independent members.

Governance

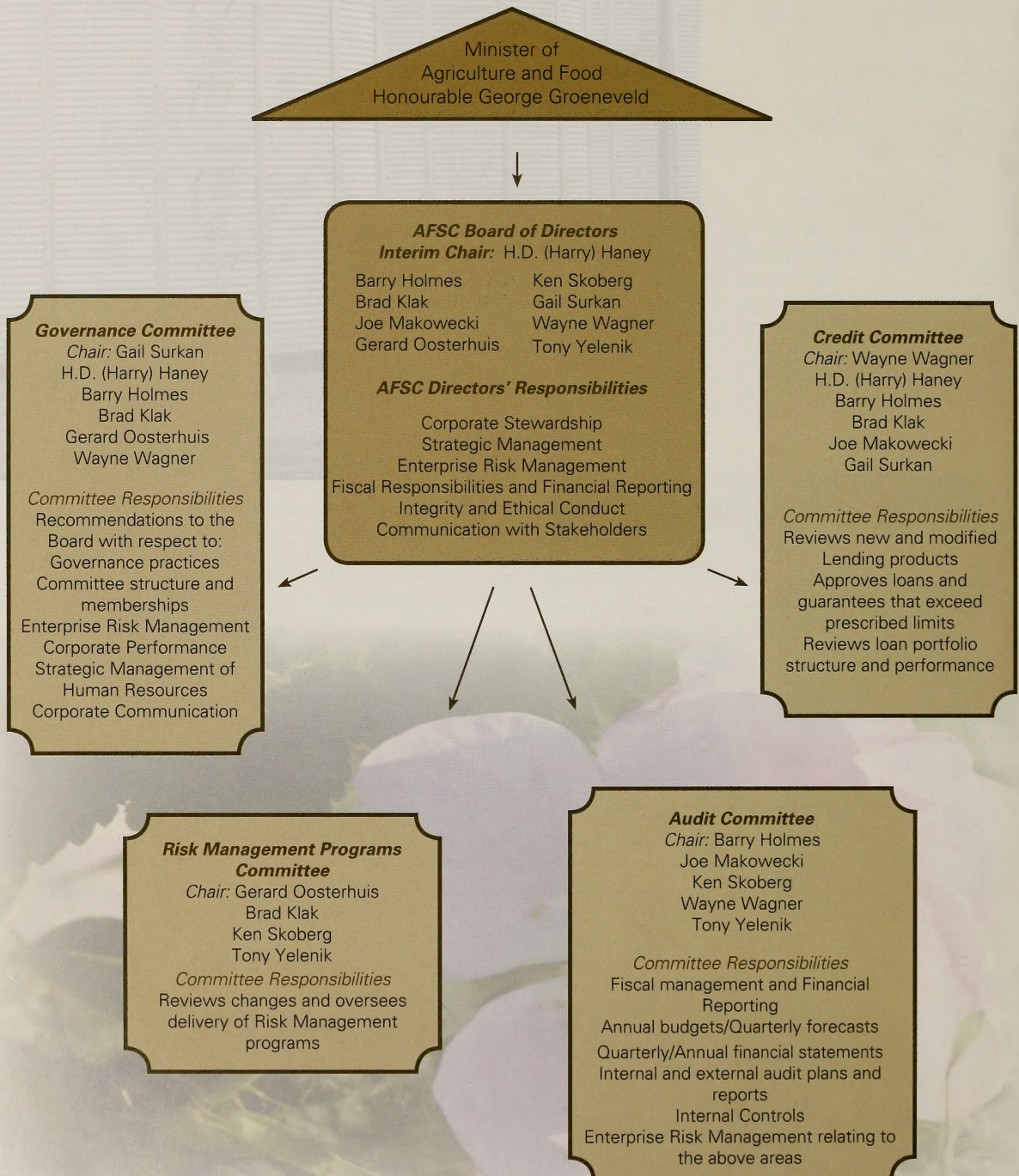
The Board members adhere to the Board Governance Handbook. New Board members are provided orientation as soon as they assume their duties. The Board Code of Conduct and Ethics is reviewed annually, with each Board member annually confirming compliance. The Board, its Committees and individual Board members annually assess its performance through a structured process of self-evaluation. The Board continually identifies areas of potential development to enhance its effectiveness in governance and in pursuing strategies to achieve continuous improvement.

The Board and Committees meet as often as required, as well as hold in-camera sessions. The Board ensures that public policy is considered in all decisions. Board members also participate in seminars and conferences to further enhance their skills in dealing with Corporate business issues and governance.

Meetings Attended
(for the fiscal year 2006/07)

	<i>Committee Meetings</i>	<i>Board Meetings</i>
Aaron Falkenberg*	7 of 7	2 of 2
Barry Holmes	16 of 17	7 of 9
Barry Mehr*	5 of 7	5 of 6
Bob Splane*	5 of 6	3 of 3
Brad Klak	17 of 18	9 of 9
Gail Surkan	7 of 7	6 of 9
Gene Dextrase*	9 of 12	5 of 6
Gerard Oosterhuis	7 of 8	8 of 9
H.D. (Harry) Haney	12 of 13	9 of 9
Joe Makowecki	14 of 15	9 of 9
Lynn Dechant*	7 of 7	6 of 6
Wayne Wagner	27 of 28	9 of 9
*was a Board Member For Part Of This Year		

Corporate Governance
Board Committee Membership and Responsibilities
As of May 30, 2007



Management Discussion and Analysis

Financial Highlights

The following information should be read in conjunction with AFSC's financial statements and attached notes.

2006-07 has been yet another successful year of operations for AFSC. The Corporation recorded a surplus of \$227.9 million, mainly because crop losses were less than premium revenues.

Revenue for 2006-07 increased by \$100 million from the previous year, largely due to higher contributions from the Government of Alberta. This additional benefit to farmers enhanced support levels under the CAIS program.

Corporate expenses in 2006-07 increased by \$48 million from the previous year, mainly as a result of higher benefit payments to farmers.

The loan portfolio increased by \$36 million, due to a 30 percent increase in lending volumes during the year. The allowance for doubtful accounts is lower at 3.02 percent of the total loan portfolio, down from 3.78 percent in the previous year. This is reflective of steady land prices in the province and future outlook of agriculture industry in general.

Risk Management

The business activities of AFSC involve risks. A comprehensive Enterprise Risk Management plan and practices allows us to manage our risks.

The Board and its Committees are responsible for overseeing the Enterprise Risk Management plan and practices, including ensuring systems and internal controls are in place to mitigate identified risks to acceptable levels. The management, at all levels are responsible for the ongoing monitoring of risks and implementing appropriate measures to manage them. The following discussion identifies some of the key risks the Corporation faces and how the risks are mitigated.

Strategic Planning

The Board at its annual strategic planning retreat reviews the corporate vision, mission, goals and strategic priorities following an environmental scan. The Board

in the planning retreat also reviews the mandates of the Corporation and its core programs and deals with strategies to address key risks.

Credit Risk

Credit risk is the possibility that a debtor will not pay amounts owing to AFSC, thus resulting in a loss. To mitigate this risk, lending staff monitor loan accounts continually to ensure prompt response to any difficulties customers may encounter. Security requirements are contingent on the risk involved in each individual operation. For example, higher security levels would be required for enterprises needing specialized or customized equipment, or those involved with new and emerging businesses, than would be required for more established businesses. These measures do not eliminate risk, but they do reduce the risk of significant losses.

The Corporation invests surplus funds generated by production and hail insurance operations. To mitigate the risk of potential non-realization of investment, the Corporation invests only in securities with the Government of Canada or any Canadian provincial governments and/or Corporations that have superior credit quality and offer secured investments.

A portion of payments under the CAIS program has resulted in overpayments to participants with a risk of potential non-repayment of the overpayments. This risk is mitigated by providing a rebate for repayments within 90 days from notification of overpayment and to convert overpayments to an interest bearing loan with a repayment period of up to 10 years. The Corporation also has a right of offset against payments under CAIS and other programs such as Production Insurance (PI). Where the Corporation is not able to recover overpayments from future program payments, the Corporation is committed to recovering the overpayment by pursuing collection through other means.

The Corporation provides insurance coverage on crops, effective at the signing of a contract of insurance, with or without payment of premiums in full. Non-collection of outstanding insurance premiums is a risk. To minimize this risk, a discount is provided for early payment of insurance premiums, and payment arrangements are set for all customers not taking advantage

of the offered discount. Insurance staff closely monitor outstanding premiums, and collection action is taken promptly when required. Insurance contracts are not renewed for future years if premiums for the prior year are outstanding at the time of renewal of insurance contracts.

AFSC through its reinsurance broker mitigates credit risk relating to non-recoverability of reinsurance proceeds from private reinsurance companies. The Corporation monitors the concentration of credit risk for the insurance contracts it holds and evaluates the financial position of each reinsurer. There is no significant reliance on any one reinsurer.

Interest Rate Risk

Interest rate risk, is the impact future changes in interest rates have on cash flows and fair value of assets and liabilities.

To mitigate this risk, AFSC matches the repayment timing of amounts borrowed with the repayment timing of loans made as closely as is practical. At March 31, 2007, the gap between the amount of loan and debt repayments due for periods of one to five years and six to ten years is reasonable considering that the Corporation allows its borrowers to repay loans in part or full at any time without any penalty. The debt due over ten years is about \$88.7 million lower than the estimated loan repayments during the same period because the loans due over a period of more than ten years are funded partly by the accumulated surplus from lending operations of \$85.2 million. Overall, the gap and consequent risk is low. AFSC's Investment Policy of surplus funds related to production and hail insurance program operations mitigates interest rate risk. This is accomplished by setting investing durations that match management's best estimate of when investments need to be liquidated to meet financial commitments.

Liquidity Risk

Liquidity risk is the potential financial loss incurred if AFSC fails to meet its financial commitments for cash. In order to mitigate liquidity risks, the Corporation has in place sound cash management practices through cash flow statements, with the objective of maintaining sufficient funds to meet the business needs at all times. Liquidity risks are minimized through retaining adequate bank balances in operating accounts which yield a reasonable rate of return through the Govern-

ment of Alberta Consolidated Cash Investment Trust Fund, an investment portfolio which is structured in such a way that a portion of the portfolio is accessible at short notice, available access to advances from the Government of Alberta and borrowing through Alberta Finance with a revolving borrowing limit of \$1.2 billion.

Insurance Risk

AFSC's insurance operations mitigate insurance risk by setting premium rates that reflect actuarially sound business principles, by taking into consideration the results of the program and the amount of carried over surplus in the Insurance Fund.

To limit the exposure of both the Government of Canada and Alberta against PI program losses significantly in excess of program premiums, management has secured government and private sector reinsurance arrangements.

Operational Risk

Operational risk is inherent in all business activities of the Corporation and cannot be eliminated entirely. However, the risk is minimized through adequate internal process controls and in some cases insuring against operational risks.

An Enterprise Risk Management plan which includes identification, analysis of risks and measures, is in place to monitor and mitigate risks and to assist managers and staff by identifying and managing operational risk. In addition, corporate policies and procedures are in place to ensure adequate internal controls exist to reduce the exposure to operational risk. Staff at all levels of the organization are responsible to comply with the policies and procedures and managers are responsible for managing operational risk in their respective work areas.

The Executive Management Team is responsible for managing corporate wide enterprise risk, while the Board, through its Committees, oversees the management.

Each core business is responsible for managing the operational risks by establishing appropriate internal process and system controls. Specialized Corporate functions such as Finance, Human Resources, Administration and Information Management are entrusted

with management of operational risk specific to their areas. Finance manages risk related to interest rate, liquidity and financial controls. Human Resources assists other departments to manage the risk related to employee recruitment, retention, succession planning and employee discipline. Administrative Services is responsible for managing risk associated with physical facilities and assets, employee safety and security, corporate liability and business continuity. Information Technology manages the risk related to computer information processing systems, electronic information, security, data integrity, disaster recovery and storage, retrieval, and destruction of electronic information.

As part of overall Corporate Enterprise Risk Management, the Internal Audit department plans and conducts operational and functional audits based on risk assessments. This group examines the adequacy of internal process controls and compliance with policies and procedures regularly. The external auditors review the effectiveness of internal controls in place annually. Both external and internal audit report their findings to the Board Audit Committee. The management takes timely action in addressing the audit recommendations. Progress reports on implementation of audit recommendations are presented by management to the Board Audit Committee periodically.

Insurance

Production Insurance (PI)

Overview

As one component of Alberta's business risk management strategy, AFSC's insurance programs continue to help producers meet the challenges of unpredictable weather and volatile commodity prices head on.

Producers who participate in AFSC's PI program have access to a variety of cost-effective strategies to manage their farming risks. PI provides coverage for crop losses due to designated perils. Special features are available for producers who want increased revenue protection.

PI is available on grains and oilseeds, grain corn, sugar beets, vegetables, pulse crops, a number of specialty crops, and honey. The producer's share

of the premium varies according to the insurance coverage levels selected. The federal and provincial governments share premium costs with producers.

All AFSC insurance programs are voluntary and can be personalized to any farm business. Producers have a variety of programs to choose from to cover their production losses, including production and area based insurance (for annual crops), Hay Insurance (for perennial crops) or Hail Insurance. The Moisture Deficiency Insurance (MDI) and Satellite Imagery Insurance (SAT) programs are available for insuring native or improved perennial pastures.

2006-07 marked the fourth year producers were able to cover market price risk through the Spring Price Endorsement (SPE) option of the PI program. This feature protects insured producers against significant drops in market prices between the time seeding decisions are made and when crops are harvested. Producers who purchase SPE coverage automatically receive Revenue Insurance Coverage (RIC) to help offset the effects of long-term low market prices.

Funding

PI is funded by premiums from producers, the Province of Alberta and the Government of Canada, in accordance with the federal-provincial-territorial Agricultural Policy Framework Agreement (APF). Under agreement, premiums are to be shared between producers, Government of Canada and Alberta in the ratio of 40:36:24 respectively. However, due to enhancements made to the program by the Government of Alberta and entirely funded by the Province, premiums are funded 32 percent by producers and 34 percent by both Canada and Alberta. In addition, the Government of Canada funds 60 percent of the net administration and adjusting costs, with the Province of Alberta funding the remaining 40 percent.

A Crop Insurance Fund is established to account for all revenue and expenses related to the PI program, including claim payments. Over the last three years, the Province of Alberta has introduced a number of enhancements to Alberta's PI program. Some of these Alberta initiatives are not cost shared by the federal government as they are considered inconsistent with the national program. The PI program results in Schedule 1 of the financial statements include both the national program and Alberta initiatives. The surplus balance of \$566 million

in the Crop Insurance Fund is made up of a \$429.3 million surplus representing the national program, a \$119 million surplus representing Alberta initiatives, and a surplus of \$17.7 million representing the Crop Reinsurance Fund of Alberta.

The Crop Reinsurance Fund of Alberta is the provincial counterpart to the federal Crop Reinsurance Fund of Canada for Alberta. Surplus balances in these two funds and the Crop Insurance Fund determine the share of premiums to be transferred to the two reinsurance funds and how indemnities are funded from each fund. AFSC administers and accounts for the Provincial Reinsurance Fund, which is consolidated with the Crop Insurance Fund for financial statement purposes. The Government of Canada holds the Federal Reinsurance Fund. A summary of transactions in the two reinsurance funds is under Note 17 to the financial statements.

Highlights

Producers continue to view PI as an important risk management tool, with 11.6 million acres of production and \$1.6 billion in risks insured (2005 – 11.6 million acres and \$1.2 billion risks insured). Hail Endorsement (HE) uptake increased slightly to 9.9 million acres in 2006 from 9.4 million acres insured in 2005.

The Alberta government provided a discount of 20 percent of producers' share of insurance premiums.

To assist producers with mitigating the rising cost of production, in the 2006-07 crop year, AFSC increased the provincial share of premium contribution for SPE and benefits under RIC for producers to 70 percent. In addition, floor prices for RIC were adjusted to more appropriately reflect rising input costs.

Premiums for PI (including HE and SPE) totaled \$319.8 million. With the continued volatility of market prices and the 70 percent SPE premium share contribution by the provincial government, (50 percent in 2005) SPE/RIC participation increased by 156 percent to 8,989 subscriptions. This is compared to 5,773 subscriptions in 2005.

In 2006-07, PI claims (including HE, SPE and RIC) totaled \$127.9 million, down from \$156.6 million the previous year, due to enhanced crop yields. AFSC issued payments for SPE of \$191,000 and RIC of \$21 million related to the 2006 crop as of March 31, 2007.

Late in the 2006 season, many producers suffered from hail damage, resulting in 2,992 HE claims in the total amount of \$67.9 million.

Hay and Pasture Insurance

Overview

The Hay Insurance program offers a specific production guarantee to producers. This insurance is available on an individual coverage basis, and compensates for production losses on hay crops caused by designated perils. To help stabilize coverage for producers who experience multiple years of low yields compared to the risk area, AFSC introduced additional changes to individual coverage levels to reduce the impact of low yields.

AFSC continued to offer two distinct pasture programs for 2006-07. These programs provided more options for producers to customize pasture coverage protection based on their needs.

SAT program, available only in selected areas in southern Alberta, is an area based (producer's township) insurance option that uses satellite imagery data to assess pasture conditions and determine payments.

The MDI program is a province wide, area based, insurance option that helps protect producers' pasture against a possible limited accumulation of moisture at weather stations selected for insurance purposes. Producers can:

- a) choose to include spring soil moisture;
- b) select length and weights of coverage period; and
- c) choose whether to purchase split season endorsement.

Funding

Funding parameters are the same as those provided for PI.

Highlights

For 2006-07, Hay Insurance participation declined from the previous year, with 2,914 policies on 570,000 acres, compared to 3,487 policies and 705,000 acres in 2005-06. This was due to improved moisture conditions and higher premium rates resulting from the 2002 drought. Growth conditions were similar to 2005 which resulted in \$1.5 million in losses in 2006 compared to \$1.6 million paid in 2005.

In 2006-07, AFSC introduced insurance for Export Timothy Hay. This program provides a production and grade guarantee for Timothy Hay produced for the export market. 35,000 acres were insured under this program with 134 participants.

For the 2006-07 crop year, the area eligible for the SAT program was extended to the area in the southwest corner of the province and into an area to the north of the east central boundary.

5.9 million acres were insured under SAT and MDI in 2006, compared to 7.4 million acres in 2005. In 2006-07, hay and pasture claims (including Hay, Export Timothy, SAT and MDI) totaled \$6.2 million.

Hail Insurance

Overview

Hail Insurance provides producers with affordable spot-loss protection for damage to crops due to hail or accidental fire. This coverage can be taken in addition to PI or on its own. Any individual with an interest in an insurable crop can participate, whether they are the producer, tenant or landlord with a crop share lease agreement. The combined dollar coverage of all insured parties cannot exceed the maximum dollar coverage per acre limit. Losses are paid based on the percentage of damage that occurs to the crop.

Funding

Hail Insurance is entirely funded by producers' premiums.

Highlights

In the 2006 crop year, insured acreage decreased to 5.3 million acres from 5.6 million in 2005, with no significant change to premiums. Losses were paid on 1,726 contracts for \$26.4 million with a loss to premium ratio of 94.5 percent.

Wildlife Damage Compensation

Overview

The Wildlife Damage Compensation program provides spot loss coverage for crop damage caused by waterfowl, big game animals, or upland game birds. Crops must be either standing or

in swaths. Damage to stacked hay is covered in certain circumstances.

Funding

There are no premiums charged under the Wildlife Damage Compensation program. However, a non-refundable appraisal fee of \$25 is charged for each section of land for which a claim is submitted. The Government of Alberta funds 52 percent of indemnities and the Government of Canada funds the remaining 48 percent. The Government of Canada funds 60 percent of the administration and adjusting costs and the Province of Alberta funds the remaining 40 percent.

Highlights

Wildlife damage was lower than normal, due to favourable weather conditions and early completion of harvest in most areas of the province. Total losses for the 2006 crop year were \$3.9 million with 874 claims.

Canadian Agricultural Income Stabilization (CAIS) Program

Overview

The CAIS program was introduced for the 2003 program year and is near completion of its third year of delivery. CAIS is a federal-provincial-territorial initiative that provides both income stabilization and disaster assistance to producers of all types of agricultural commodities. CAIS provides income stabilization coverage individualized to every producer. Designed to work with PI, the CAIS program is a key component of Alberta's business risk management strategy.

When a participant's claim year production margin (the difference between allowable income and allowable expenses) falls below their support level, they are eligible to receive a benefit. Support levels are calculated by taking the production margins for the previous five years, dropping the highest and lowest, and then averaging the remaining three margins (Olympic average).

The producer deposit requirement was removed for the 2003-2005 program years and was replaced with a fee for the 2006 program year. Improved eligibility criteria for producers with negative reference margins was also introduced for the 2005 program year.

Funding

The CAIS program is funded in accordance with the federal-provincial-territorial APF Agreement. The Government of Canada funds 60 percent of claim payments and administrative costs, while the Alberta Government funds the remaining 40 percent. Any benefit payment to Alberta producers above the national program parameters, as a result of a provincial enhancement, is fully funded by the Alberta government. These enhancements include the Alberta Margin Enhancement (AME) (for the 2004 program year), the Reference Margin Pilot Project (RMPP) (2003-2005), the Alberta Reference Margin Initiative (ARMI) (2006) and the higher CAIS payment cap in Alberta of \$5 million per participant (\$3 million nationally).

Highlights:

To address the issue of erosion of support level under the CAIS program due to the lingering effects of two consecutive years of drought in 2001 and 2002, Alberta introduced the RMPP for the 2003-2005 program years as a provincial alternative to calculating reference margins when the average of the previous three years of production margins yield a higher support level. Due to the positive impact of the RMPP in Alberta during the 2003-2005 program years, the Alberta government is continuing this additional support for 2006 through the ARMI. Over \$151 million has been paid out under the RMPP program to date. This past year, Alberta also introduced the AME for the 2004 program year, which increased support levels and helped offset the increased costs of production. Through provincial enhancement an additional \$216 million has been paid to date to CAIS participants.

Alberta also made significant improvements in delivery of the CAIS program such as improved claim processing turnaround times, introduction of a new computer system designed specifically for CAIS processing and the launch of the myAFSC website where producers and/or their authorized representatives can access CAIS information online. Processing turnaround times for the 2005 program year improved greatly such that at fiscal year end March 31, 2007 CAIS had processed 83 percent of the applications received compared to 58 percent the previous year. AFSC's customers started benefitting from improvement by receiving more effective service.

Lending

Overview

AFSC lending is helping Albertans finance solid business opportunities from a farm or a commercial business. With 38 lending offices across the province, AFSC's lenders are close to our customers and uniquely positioned to support economic growth in rural Alberta. We understand that accessing capital can be a real challenge. By taking the time to listen to our customers' business needs, our lenders are able to customize a financing solution by providing a direct loan, a guarantee to another financial institution or helping to source the required capital through other lenders.

AFSC offers a wide variety of lending products and services including: Farm Loans, Disaster Assistance Loans, Guarantees, Commercial Loans, and Capital Sourcing services. Loan products and services are offered in all lending offices.

Highlights

Lending volumes increased by over 30 percent to \$243 million for the year ending March 31, 2007 over the past year of \$182 million.

Farm loan portfolio reached \$843 million with over 9,600 borrowers. This farm loan portfolio continues to perform very well. The allowance for doubtful debts is lower at 1.85 percent, down from 3.22 percent in previous years.

Alberta Farm Loan Program (AFLP)

Overview

A new farm loan program was introduced during the past year, replacing the Beginning Farmer and Developing Farmer programs. The AFLP provides better access to capital for farmers and is a reasonable and consistent source of capital to individuals and companies involved in primary agriculture in Alberta. The AFLP offers market based interest rates and allows producers the option to choose a fixed interest rate for up to twenty years. For eligible borrowers, the AFLP provides an interest rate reduction during the first five years of the loan.

Highlights

For the fiscal year ending March 31, 2007, AFSC authorized a total of 895 loans under this new program, totaling \$148.5 million.

Alberta Disaster Assistance Loan Program (ADALP)

Overview

ADALP was designed as a stand-by emergency response loan program. The program is intended to assist primary producers who have suffered an agricultural disaster to maintain or regain viability. It addresses a wide range of production and income related losses and can be used to restore working capital and financial viability to an operation through flexible terms and preferred interest rates.

Highlights

For the fiscal year ending March 31, 2007, AFSC authorized 46 loans under this program, totaling \$8.2 million. There was a significant reduction of ADALP loans processed this year due to fewer farm disasters, further recovery or restructuring from the impact of bovine spongiform encephalopathy (BSE) and improving commodity prices.

Specific Loan Guarantee Program

Overview

This guarantee program is intended to enable eligible farm or commercial applicants to obtain financing from other financial institutions and receive the backing of a specific loan guarantee from AFSC. In addition to standard guarantees to support a loan, guarantees to back a letter of credit, bid bonds or performance guarantees can be arranged.

Highlights

During the past year, AFSC provided five specific guarantees to Alberta farmers or commercial businesses with a total investment value for all projects of \$29.6 million.

Commercial Lending

Overview

Following the lead of Alberta's entrepreneurs, AFSC continually looks for new and innovative ways to do business. Our goal is to support and strengthen Alberta's rural and business communities. With our

thorough understanding of business development and our innovative approach to financing that supports Alberta's business, agri-industries and all value chain sectors, AFSC is helping build a strong, sustainable rural economy.

AFSC's commitment to the value-added agriculture and food processing sectors is well known. By enhancing existing programs or introducing new loan programs or services, we have been able to assist in growing these Alberta based industries.

To support the emerging bio-energy industry, a new Bio-Industrial Loan Program was developed and became effective in October, 2006. This program supports the growth of Alberta's bio-industrial industry by providing financing to assist with business start-up or expansion, product development and market development for all Alberta based bio-energy projects including bio-gas, ethanol, bio-diesel, bio-lubricants and other bio-fuel derivatives.

Funding

AFSC lending programs are funded by repayments by existing borrowers and short and long-term borrowing through the Province of Alberta. Operational costs for AFSC's lending operations are funded by loan interest and fees collected from customers and contributions from the province.

Highlights

During the past fiscal year, AFSC granted 227 loans to Alberta businesses totaling \$63.6 million. These loans were leveraged with investors' and other lenders' funds for total project values of \$235.2 million. This is a significant increase over the previous year's commercial lending volumes. There were 1295 farm and rural businesses assisted over the past year with a total investment value of \$399 million.

The commercial loan portfolio is \$178 million with more than 1,050 borrowers. The portfolio continues to perform well with the allowance for doubtful debts at \$15.2 million or 8.34 percent of the portfolio.

Corporate

AFSC is customer driven, committed to finding innovative ways to improve its delivery to more effectively meet the needs of our clients and staff.

Human Resources

During 2006-07, AFSC successfully implemented a number of key initiatives designed to move us closer to our goal of becoming an Employer of Choice. These initiatives included the development of a corporate wide succession plan to address the issues surrounding the retirement of the "baby boomer" generation and to develop leaders for the future. We implemented learning and development plans to provide opportunities for employees' career advancement and prepared them to take on more senior positions as they become vacant. We also implemented a new employee benefit package to adequately cater to the needs of employees and their families.

To be able to attract and retain knowledgeable and experienced personnel, AFSC continues to utilize innovative attraction and retention strategies, including proactive training opportunities, timely employee recognition, succession planning, and competitive pay and benefits. In addition to supporting our dedicated and talented staff who love what they do, the Corporation strives to maintain a positive work environment to ensure that AFSC continues to be a great place to work.

As a result of the above and other measures implemented during the year, a survey conducted through an independent outside firm in which 100 percent of the employees participated, indicated that the overall employee satisfaction was 89 percent, compared to 83 percent in the previous year.

Customer Service

As a result of our efforts to increase the effectiveness of products and service delivery, customer satisfaction of all AFSC's services increased to 69 percent from 67 percent in 2006. 82 percent of lending customers (80 percent in 2006) were satisfied compared to 73 percent of crop, hail and other insurance customers (70 percent in 2006) and 66 percent of CAIS customers (64 percent in 2006).

Information Technology

Effective and efficient Information Technology (IT) service is critical for the successful operation of AFSC with 50 offices across Alberta, more than 700 employees and providing unique products and services to thousands of customers. In order to further improve IT services and capacity to handle multiple projects, the Corporation reviewed and successfully implemented a new service delivery model effective April 1, 2007. The model is a combination of in-housed essential services and out-sourced application development through a competitive process replacing a single source service delivery of all IT needs.

Executive Management Team

Brad Klak, *President and Managing Director*
R. (Krish) Krishnaswamy, *Vice-President, Finance*
Rick Bell, *Vice-President, Lending*
Merle Jacobson, *Vice-President, Risk Management*
Donna Bryden, *Senior Manager, Human Resources*

Goals and Performance

Goal 1: Growth

AFSC plays a pivotal role in the growth and development of Alberta's small businesses, farms, and value-added agri-businesses by providing unique financial services.

Key Results:

- Investment in Alberta farms.
- Investment in Alberta agri-businesses, rural businesses, exporting businesses, and commercial enterprises.
- Leverage for investments into Alberta enterprises through AFSC assistance, partnerships, alliances, and syndication.
- Become known for Customer Service Excellence in creative lending services for Alberta enterprises.

Investment & Leverage Measures	Number of Customers Assisted		Total AFSC Loans (\$'s in millions)	
	Target	Performance	Target	Performance
All Enterprises	1100	1348	\$188	\$247
Farms (loans)	750	1086	\$122	\$182
Agri-business	80	67	\$30	\$21
Rural Business	960	1295	\$80	\$237
Exporting Business	40	71	\$22	\$27
Customer Service Excellence Measures			Target	Performance
Customer satisfaction with effectiveness of lending division services based on survey results			80%	82%
Percentage of customers surveyed agree that AFSC financing has helped the business establish and/or grow			BM	92%

Goals and Performance *(continued)*

Goal 2: Sustainability

AFSC will contribute to the sustainability of the agriculture economy by developing and providing unique risk management services.

Key Results:

- Farmers continuously participate in risk management products.
- Risk management products are targeted to cover important risks identified by farmers.
- Alberta farming operations are considered to be more stable and economically sustainable.
- Business Risk Management (BRM) programs and products are effective.
- AFSC is a leading risk management service known for Customer Service Excellence.

<i>Continuous Participation Measures</i>	<i>Target</i>	<i>Performance</i>
% of farming operations that continue to participate in CAIS	91%	98%
% of farming operations that continue to participate in PI	90%	95%
% of farming operations that continue to participate in both	90%	97%
<i>Risk Management Coverage Measures</i>	<i>Target</i>	<i>Performance</i>
% of producers that agree they have BRM products available	78%	65%
Reduction in the % of acres without insurance products	4%	0.2%
<i>Stable and Sustainable Farming Operations Measures</i>	<i>Target</i>	<i>Performance</i>
% of producers that agree participation in BRM products has helped to stabilize their income over the last five years	BM	66%
% of producers that agree participation in PI products helped them secure additional finance to support operations	BM	30%
<i>Customer Service Excellence Measures</i>	<i>Target</i>	<i>Performance</i>
Customer satisfaction with effectiveness of service delivery of CAIS program based on survey results	60%	66%
Customer satisfaction with effectiveness of service delivery of insurance products based on survey results	75%	73%

*Summary of Canadian Agricultural
Income Stabilization Program (CAIS)
As at March 31, 2007*

<i>Claim Year</i>	<i>Number of Participating Producers</i>	<i>Number of Claims Processed</i>	<i>Number of Claims with Payment</i>	<i>Total Payment \$ 000,000</i>	<i>Average Payment \$</i>
2003	35,309	34,896	18,342	435	23,740
2004	36,018	35,942	14,774	263	17,798
2005	37,574	24,864	8,513	116	13,622

*Summary of Lending
As at March 31, 2007
(\$ in millions)*

	Authorizations 2006-2007		Authorizations 2005-2006		Active and Outstanding March 31, 2007	
	No.	\$	No.	\$	No.	\$
DIRECT LOANS						
Farm Loans	1,077	179.8	914	134.2	9,615	842.9
Commercial Loans	227	63.6	179	47.7	1,050	178.5
TOTAL DIRECT LOANS	1,304	243.4	1,093	181.9	10,665	1,021.4
GUARANTEES						
Alberta Farm Development Loans	93	5.5	180	11.5	1,310	56.5
Specific Guaranteed Loans	9	3.3	6	3.0	69	11.7
TOTAL GUARANTEES	102	8.8	186	14.5	1,379	68.2
CORPORATE TOTAL	1,406	252.2	1,279	196.4	12,044	1,089.6

In addition to the above lending, AFSC facilitated capital sourcing for 35 projects with a total investment value of \$15 million (2005-06 - 71 projects for \$123 million).

Summary of Insurance

Production Insurance for Annual Crops

As at March 31, 2007

	PI * Totals are for Crop Insurance, Processing Vegetables, Honey, Corn Heat Units and Silage/Greenfeed		Hail Endorsement * Totals are for Crop Insurance, Processing Vegetables, Honey, Corn Heat Units and Silage/Greenfeed	
	2005	2006	2005	2006
Number of Contracts	14,575	13,487	11,566	11,140
Acres ,000	11,589	11,629	9,353	9,868
Risk \$,000	1,223,833	1,625,457	1,042,360	1,434,982
Premium \$,000	186,014	183,481	53,442	57,142
Contracts with Losses	3,655	3,924	2,784	2,992
Loss \$,000	37,369	38,877	44,364	67,869
Loss/Premium Percent	20.1	21.2	83.0	118.8

Production Insurance for Perennial Crops

As at March 31, 2007

	Hay Insurance		Export Timothy Hay	
	2005	2006	2005	2006
Number of Contracts	3,487	2,914	New Program implemented in 2006	13
Acres ,000	705	570		3
Risk \$,000	41,872	39,223		7,73
Premium \$,000	10,918	7,483		89
Contracts with Losses	482	409		1
Loss \$,000	1,614	1,455		16
Loss/Premium Percent	14.8	19.4		18

Hail Insurance

As at March 31, 2007

	2005	2006
Number of Contracts	7,583	6,710
Acres ,000	5,616	5,310
Risk \$,000	562,914	540,132
Premium \$,000	28,047	27,883
Contracts with Losses	1,701	1,726
Loss \$,000	21,702	26,351
Loss/Premium Percent	77.4	94.5

Spring Price Endorsement (SPE) includes Crop Insurance, Corn Heat Units & Silage/Greenfeed		Revenue Insurance Coverage (RIC) * includes Crop Insurance, Corn Heat Units & Silage/Greenfeed	
2005	2006	2005	2006
5,773	8,989	5,773	8,989
4,431	8,556	4,431	8,556
150,992	1,168,701	450,992	1,168,701
53,171	79,147	N/A	N/A
3,143	143	5,684	6,309
23,028	191	51,799	20,999
43.3	0.2	N/A	N/A

Satellite Imagery Insurance (SAT) (Pasture)		Moisture Deficiency Insurance (MDI) Pasture	
2005	2006	2005	2006
1,375	1,047	3,121	2,533
4,574	3,650	2,791	2,236
35,018	31,957	40,578	38,659
8,570	5,389	7,406	5,473
133	178	1,023	1,272
279	1,341	2,063	3,286
3.3	24.9	27.9	60.0

Wildlife Damage Compensation and Excreta Programs

As at March 31, 2007

	2005	2006
Number of Wildlife Losses	627	678
Wildlife loss \$,000	2,966	3,096
Number of Waterfowl Losses	472	196
Waterfowl Loss \$,000	1,795	888
Total Number of Losses	1,099	874
Total Loss \$,000	4,761	3,984

Management's Responsibility for Financial Reporting

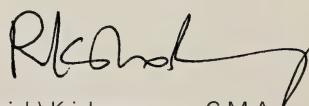
The accompanying financial statements of Agriculture Financial Services Corporation and all other information relating to the Corporation contained in this annual report are the responsibility of management. The financial statements have been prepared in conformity with Canadian generally accepted accounting principles, using methods appropriate for the industry in which the Corporation operates and necessarily include some amounts that are based on informed judgments and best estimates of management. The financial information contained elsewhere in this annual report is consistent with that in the financial statements.

Management is responsible for maintaining a system of internal controls designed to provide reasonable assurance as to the reliability of financial information and to ensure corporate assets are safeguarded and liabilities are recognized. The internal control systems are augmented by periodic reviews by the Corporation's internal auditors.

The Alberta Auditor General is responsible to express a professional opinion on these financial statements. The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility through the Audit Committee, composed of directors who are not employees of the Corporation. The Audit Committee meets regularly with management, the internal auditors and the external auditors to discuss auditing and financial matters, to gain assurance that management is carrying out its responsibilities, and to review and approve the financial statements. The internal and external auditors have full and free access to the Audit Committee.



Brad Klak
President and Managing Director



(Krish) Krishnaswamy C.M.A.
Vice-President, Finance



To the Board of Directors of the Agriculture Financial Services Corporation

I have audited the balance sheet of the Agriculture Financial Services Corporation as at March 31, 2007 and the statements of revenue, expense and surplus, and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

FCA
Auditor General

Edmonton, Alberta
May 24, 2007

AGRICULTURE FINANCIAL SERVICES CORPORATION

BALANCE SHEET

AS AT MARCH 31, 2007

(in thousands)

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash	\$ 316,020	\$ 163,415
Accounts receivable (Note 4)	121,222	137,103
Due from Province of Alberta	48,069	8,028
Due from Government of Canada	303,247	330,914
Loans receivable (Note 5)	1,009,293	973,084
Investments (Note 6)	423,144	238,459
Property and equipment (Note 7)	34,395	32,012
	<u>\$ 2,255,390</u>	<u>\$ 1,883,015</u>

LIABILITIES AND SURPLUS

Accounts payable and accrued liabilities	\$ 13,843	\$ 25,371
Estimated indemnities payable (Note 8)	591,091	456,883
Due to Crop Reinsurance Fund of Canada for Alberta	1,847	16,630
Allowance for losses on loan guarantees (Note 14)	856	824
Notes payable (Note 9)	931,371	897,059
Deferred revenue (Note 10)	26,144	23,867
	<u>1,565,152</u>	<u>1,420,634</u>
Surplus	<u>690,238</u>	<u>462,381</u>
	<u>\$ 2,255,390</u>	<u>\$ 1,883,015</u>

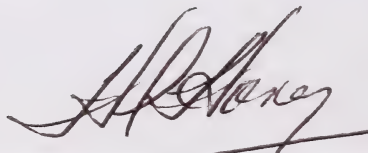
Contingencies and commitments (Note 14)

The accompanying notes and schedules are part of these financial statements.

Approved by the Board:



Barry Holmes, Chair of Audit Committee



Harry Haney, Chair of the Board

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF REVENUE, EXPENSE AND SURPLUS

FOR THE YEAR ENDED MARCH 31, 2007

(in thousands)

	<u>2007</u>		<u>2006</u>
	<u>Budget</u>	<u>Actual</u>	<u>Actual</u>
	(Note 3(a))	(Schedule 1)	
Revenue:			
Premiums from insured persons	\$ 123,646	\$ 132,412	\$ 141,524
Interest	74,786	68,257	68,636
Contribution from Province of Alberta	337,077	604,905	468,033
Contribution from Government of Canada	298,154	233,148	290,918
Investment income	10,568	28,589	14,228
Fees and other income	4,522	21,192	4,785
	<u>848,753</u>	<u>1,088,503</u>	<u>988,124</u>
Expense:			
Indemnities	630,843	719,055	638,984
Administration (Schedule 2)	60,741	63,208	58,101
Interest	48,347	45,190	45,027
Reinsurance	30,290	16,511	58,559
Adjusting	7,841	7,528	7,646
Farm loan incentives	4,992	4,552	4,883
Provision (recovery) for doubtful accounts and for losses (Note 13)	2,359	2,527	(2,877)
Selling commissions	2,650	2,075	2,233
	<u>788,063</u>	<u>860,646</u>	<u>812,556</u>
Surplus for the year	<u>\$ 60,690</u>	227,857	175,568
Surplus at beginning of year		<u>462,381</u>	286,813
Surplus at end of year		<u>\$ 690,238</u>	<u>\$ 462,381</u>

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED MARCH 31, 2007

(in thousands)

	<u>2007</u>	<u>2006</u>
Operating activities:		
Surplus for the year	\$ 227,857	\$ 175,568
Changes not affecting cash	5,377	(1,755)
Changes in assets and liabilities relating to operations	<u>110,652</u>	<u>(8,427)</u>
Net cash provided by operating activities ⁽¹⁾	<u>343,886</u>	<u>165,386</u>
Investing activities:		
Proceeds from repayments of loans receivable and sale of properties	176,347	190,132
Loan disbursements	(218,971)	(184,190)
Purchase of investments	(969,420)	(680,013)
Proceeds on disposal of investments	784,674	614,452
Purchase of property and equipment	(9,417)	(11,171)
Proceeds on disposal of property and equipment	<u>548</u>	<u>517</u>
Net cash utilized by investing activities	<u>(236,239)</u>	<u>(70,273)</u>
Financing activities:		
Borrowing from the Province of Alberta	832,348	568,581
Repayment of borrowing from the Province of Alberta	(796,051)	(584,385)
Government of Canada funding for property and equipment	3,138	3,432
Province of Alberta funding for property and equipment	<u>5,523</u>	<u>5,218</u>
Net cash provided (utilized) by financing activities	<u>44,958</u>	<u>(7,154)</u>
Net increase in cash from operating, investing and financing activities	152,605	87,959
Cash at beginning of year	<u>163,415</u>	<u>75,456</u>
Cash at end of year	<u><u>\$ 316,020</u></u>	<u><u>\$ 163,415</u></u>

⁽¹⁾ Net cash provided by operating activities includes \$45,190 (2006 \$43,184) of interest paid.

The accompanying notes and schedules are part of these financial statements.

AGRICULTURE FINANCIAL SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

MARCH 31, 2007

(in thousands)

Note 1 **Authority and Purpose**

The Agriculture Financial Services Corporation (the "Corporation") operates under the authority of the *Agriculture Financial Services Act*, Chapter A-12 RSA 2000.

The Corporation provides lending and insurance services and compensation programs. Its core programs and services include loans to farm operations, commercial lending, production insurance, hail insurance and agricultural income stabilization payments. It also delivers other programs and services including loan guarantees, and business counseling.

Note 2 **Significant Accounting Policies and Reporting Practices**

These financial statements are prepared in accordance with Canadian generally accepted accounting principles.

(a) **Cash**

Cash consists of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital.

(b) **Investments**

Investments are carried at cost or amortized cost unless there is an other than temporary decline in the value of the investments, then the investments are written down to recognize the loss. Premiums and discounts on investments are amortized to investment income using the straight-line method over the period to maturity of the related investment. Gains and losses realized on disposal of investments are included in investment income.

(c) **Property and Equipment**

Property and equipment are carried at cost less accumulated amortization. Amortization is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

Building	25 - 40 years
Land improvements	25 years
Software development costs	2 - 10 years
Equipment and furniture	10 years
Vehicles	5 years
Computer equipment	5 years

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(d) Notes Payable

Notes payable are carried at amortized cost. Premiums and discounts on notes payable are amortized to interest expense using the effective yield method over the period to maturity.

(e) Fair Value of Financial Instruments

Because of the relatively short period to maturity, short-term financial instruments are valued at cost and adjusted for any applicable allowance for doubtful accounts. This is considered to be equivalent to fair value and applies to Cash, Accounts receivable, Due from Province of Alberta, Due from Government of Canada, Accounts payable and accrued liabilities, Estimated indemnities payable and Due to Crop Reinsurance Fund of Canada for Alberta. Fair values of Loans receivable, Investments and Notes payable are disclosed in their respective notes.

(f) Reinsurance

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, two crop reinsurance funds were established. On behalf of the Province, the Corporation administers the provincial fund called the Crop Reinsurance Fund of Alberta. Canada holds the federal fund called the Crop Reinsurance Fund of Canada for Alberta. The Crop Reinsurance Fund of Alberta is included as part of the production insurance surplus of the Corporation. Contributions to and withdrawals from the Funds are made in accordance with terms and conditions of the agreement (see Note 17).

Estimates of amounts recoverable from non-government reinsurers on premiums, indemnities and adjusting expenses are recorded in Accounts receivable. Reinsurance recoveries are not netted against indemnities, they are separately disclosed under revenue. Reinsurance expenses are not netted against premiums from insured persons or contributions from the Province and Government of Canada; they are separately disclosed under expenses.

(g) Loan Discounting

Loans made under the Alberta Disaster Assistance Loan Program, Alberta Farm Income Disaster Program, and amounts previously deferred under the Indexed Deferral Plan are discounted when they involve significant concessionary elements. The amounts discounted are being amortized to revenue over the lives of the concessionary terms.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(h) Revenue Recognition

Interest revenue on loans receivable is recognized on an accrual basis unless the ultimate collectibility of the loan is in doubt. When a loan is classified as impaired, interest revenue is no longer recognized. An impaired loan is a loan in which there is risk of loss to the Corporation for full and timely collection of the debt. Impairment may be due to a security deficiency, inadequate cash flow, economic factors in a specific segment of the industry or a catastrophic event.

Premiums from insured persons, including federal and provincial government contributions, are recognized as income when invoiced to producers.

Federal and provincial contributions for property and equipment acquisitions are recorded as deferred revenue until that revenue is recognized on the same basis as those property and equipment costs are amortized.

Loan fees are recognized when received or at the time of loan disbursement. Other fees are recorded when the Corporation completes the applicable service.

(i) Pensions

The Corporation participates in multi-employer pension plans with related government entities. Pension costs included in these statements comprise the cost of employer contributions for current service of employees during the year.

(j) Provision for Losses on Loans and Guarantees

Provisions are established for specifically identified potential losses on loans and guarantees. When a loan is identified as impaired, a specific provision is established. Specific provisions are established by reducing the recorded investment in the loan by the discounted fair value of the security and the estimated costs to collect. Specific provisions are determined in this manner because the amounts and timing of future cash flows cannot be estimated with reasonable reliability. The provision for doubtful accounts is adjusted for the change in the present value of the security held.

In addition to the specific provision, the Corporation establishes a general allowance for doubtful accounts not meeting the specific provision criteria. The general allowance is management's estimate of loss on loan balances based on assessed risk for each account. Risk for each account is determined based on credit risk score, debt servicing ratios, net capital ratios, arrears, certain amendments to loan terms and shortfalls of security covering loan balances.

Note 2 Significant Accounting Policies and Reporting Practices (continued)

(k) Transactions with Related Parties

The Province and the Government of Canada significantly influence the programs delivered by the Corporation and are major contributors to the funding of the programs. Therefore, both governments are considered related parties. All related party transactions with the Province and the Government of Canada have been recorded at the amount of consideration paid or received as agreed to by the related party (see Note 16).

Note 3 Financial Structure

(a) Budget

The Board of Directors approved the Corporation's budget in March 2006. Provincial funding for the approved budget of \$337,077 was authorized by the Legislative Assembly. Supplementary estimates were subsequently approved by the Legislative Assembly that increased funding from the Province of Alberta to \$648,077.

(b) Crop Fund Balance Restriction

In accordance with the Federal/Provincial Agricultural Policy Framework Implementation Agreement, the crop insurance fund is restricted to being used for production insurance purposes.

(c) Other Revenue and Expenses

The Other column in the Schedule of Revenue, Expense and Surplus includes the wildlife program, the Farm Income Disaster Program and consulting fees and expenses that are not attributable to any of the programs disclosed in the Schedule.

Note 4 Accounts Receivable

	2007	2006
Canadian Agricultural Income		
Stabilization program:		
Overpayments and advances	\$ 111,737	\$ 123,076
Administration fees	5,246	2,439
Premiums from insured persons:		
Production insurance program	9,395	9,917
Hail insurance program	365	351
Prepaid expenses	894	617
Other	3,005	2,085
	<u>130,642</u>	<u>138,485</u>
Less allowances for doubtful accounts		
(Note 13)	(9,420)	(1,382)
	<u>\$ 121,222</u>	<u>\$ 137,103</u>

Included in CAIS program overpayments and advances is \$15,391 (2006 \$88,502) for estimated overpayments that are subject to measurement uncertainty. The estimate of \$15,391 is for CAIS participants who have received advance payments but have not yet had their final claim processed by the Corporation. The estimate is based on historical experience of advances resulting in overpayments.

The allowance for doubtful accounts of \$9,420 (2006 \$1,382) for estimated losses on premiums receivable and overpayments is also subject to measurement uncertainty. The allowance estimate is based on an assessment of the ability to collect the outstanding balance.

CAIS overpayments are non-interest bearing until December 31, 2007. Participants will receive a rebate if they repay the CAIS overpayment within 90 days of the overpayment notification or they can convert the overpayment to an interest bearing loan up until December 31, 2007. If the overpayment is not repaid or converted to a loan, the Corporation will pursue collection. Collection will include the recovery of the overpayment from future payments under the programs delivered by the Corporation as well as programs administered by the Province of Alberta and Government of Canada.

Note 5 Loans Receivable

Loans receivable are comprised of the following:

	2007				2006
	Recorded Investment	Specific Allowance	General Allowance	Net Carrying Value	Net Carrying Value
Farm lending	\$ 835,088	\$ (425)	\$ (15,042)	\$ 819,621	\$ 789,396
Commercial lending	182,286	(11,753)	(3,457)	167,076	162,579
	<u>\$1,017,374</u>	<u>\$ (12,178)</u>	<u>\$ (18,499)</u>	986,697	951,975
Accrued interest				25,691	24,946
Accrued incentives				(2,030)	(2,279)
Loan discounts				(1,065)	(1,558)
				<u>\$1,009,293</u>	<u>\$ 973,084</u>

Impaired loans included in the preceding schedule:

	2007			2006
	Recorded Investment	Specific Allowance	Net Carrying Value	Net Carrying Value
Commercial lending	\$ 22,960	\$ (11,753)	\$11,207	\$11,494
Farm lending	2,334	(425)	1,909	5,422
	<u>\$ 25,294</u>	<u>\$ (12,178)</u>	<u>\$13,116</u>	<u>\$16,916</u>

The impaired loans balance includes property held for sale which has been acquired as a result of foreclosures, quit claims and other actions. There is a specific allowance of \$2,691 (2006 \$2,688) on property balances outstanding of \$3,115 (2006 \$3,941).

Included in the above loans receivable balance are loans with concessionary terms which, before discounting, have principal amounts outstanding of:

	2007	2006
Alberta Disaster Assistance Loan Program	\$ 35,582	\$ 40,239
Alberta Farm Income Disaster loans	16,538	21,939
Indexed Deferral Plan	516	668
	<u>\$ 52,636</u>	<u>\$ 62,846</u>

Note 5 Loans Receivable (continued)

Included in Loans receivable is a specific allowance of \$12,178 (2006 \$9,204) and a general allowance of \$18,499 (2006 \$28,224) that are subject to measurement uncertainty. The amount established for specific and general allowances of \$30,677 to cover estimated losses on loans (see Note 2(j)) could change substantially in the future, if factors considered by management in establishing these estimates were to change significantly.

The approximate fair value of loans receivable at March 31, 2007 is \$987,333 (2006 \$981,203). Fair value is based on future cash flows discounted by rates equivalent to the market rates on loans with similar terms and credit risk.

Note 6 Investments

	2007	2006
Bonds and debentures:		
Government of Canada, direct and guaranteed	\$248,762	\$141,546
Other provincial direct and guaranteed	42,791	15,742
	291,553	157,288
Corporate securities	127,855	78,520
	419,408	235,808
Accrued interest	3,736	2,651
	<u>\$423,144</u>	<u>\$238,459</u>

The fair value of investments at March 31, 2007 is \$424,519 (2006 \$238,183). Fair value is based on quoted market prices including accrued interest.

Note 7 Property and Equipment

	2007		2006	
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Software development costs	\$ 43,051	\$ 20,008	\$ 23,043	\$ 19,468
Building	9,341	2,210	7,131	7,468
Computer equipment	8,383	7,038	1,345	1,751
Equipment and furniture	4,388	2,626	1,762	2,083
Vehicles	1,415	1,064	351	461
Land and land improvements	799	36	763	781
	<u>\$ 67,377</u>	<u>\$ 32,982</u>	<u>\$ 34,395</u>	<u>\$ 32,012</u>

Software development costs include \$1,247 (2006 \$7,126) of costs incurred that are not amortized because they are still in the developmental or construction stage.

Note 8 Estimated Indemnities Payable

	2007	2006
Canadian Agricultural Income Stabilization program		
and related programs	\$580,973	\$ 449,222
Production insurance	7,595	6,654
Wildlife compensation	2,171	826
Hail insurance	352	181
	<u>\$ 591,091</u>	<u>\$ 456,883</u>

Estimated indemnities payable of \$580,973 and corresponding contributions and receivables from the Province of Alberta and Government of Canada for the Canadian Agricultural Income Stabilization (CAIS) program are subject to measurement uncertainty because they could change significantly in the future, if factors considered by management in establishing the estimates were to change significantly.

CAIS indemnities payable includes estimated payments for the 2006 claim years of \$320,377 for the vast majority of claims that have not been received yet because the deadline for submission of complete information is after the end of the fiscal year. CAIS program payments are triggered when the participants claim year program margin falls below their support level.

The two factors impacting estimated indemnities payable for the 2006 claim year are the number of participants and estimated program margins. The estimated number of participants for the 2006 claim year is based on the number of farm operations participating in the program during the 2005 claim year. The estimated program margins are based on forecasted changes in eligible income and expenses and inventories between 2005 and 2006. Based on historical experience of variability between forecasts and actual results of key assumptions, the estimated indemnities for the 2006 claim would range from \$270,971 to \$377,362.

CAIS indemnities payable includes estimated payments of \$135,485 for claims received but not processed for the 2004 and 2005 claim years. The estimates for the 2004 and 2005 claim years are based on the number of claims received but not yet processed and the estimated average payment per claim.

CAIS indemnities payable includes estimated payments of \$125,111 (2006 \$84,902) for related programs. The related programs were approved by the Government of Alberta for the 2003, 2004, 2005 and 2006 claim years. The estimate is based on historical payment ratios for claims processed.

Note 9 Notes Payable

Notes payable to the Province of Alberta are comprised of the following:

Remaining Term to Maturity	Effective Interest Rate	2007	Effective Interest Rate	2006
Within 1 year	4.10% - 4.18%	\$ 98,610	2.57% - 5.54%	\$ 92,843
1 to 5 years	3.75% - 7.64%	385,916	3.75% - 5.93%	263,492
6 to 10 years	4.21% - 6.52%	296,180	4.26% - 7.64%	192,358
Over 10 years	4.43% - 5.12%	139,073	4.43% - 6.52%	335,395
Accrued interest		11,592		12,971
		<u>\$ 931,371</u>		<u>\$ 897,059</u>

Net unamortized discounts of \$3,953 (2006 \$3,347) are included in the balances disclosed.

Principal repayments due in each of the next five years are as follows:

Year ending March 31 2008	\$ 162,629
2009	\$ 159,688
2010	\$ 56,088
2011	\$ 160,738
2012	\$ 91,900

The approximate fair value at March 31, 2007 is \$953,325 (2006 \$922,702). Fair value is an approximation of market value to the holder.

Note 10 Deferred Revenue

	2007	2006
Government of Canada property and equipment	\$ 11,389	\$ 8,634
Province of Alberta property and equipment	8,344	7,503
Premiums from insured persons	6,411	7,730
	<u>\$ 26,144</u>	<u>\$ 23,867</u>

Note 11 Reinsurance

In addition to the protection provided by reinsurance arrangements between the provincial and federal governments, the Corporation has obtained reinsurance from non-government sources. For production insurance, the Corporation reinsured a maximum of \$96,432 of the risk from non-government sources. For hail insurance, the Corporation reinsured a maximum of \$6,600 of the risk from non-government sources.

Note 12 Pensions

The Corporation participates in the multi-employer Management Employees Pension Plan and Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of \$2,252 for the year ended March 31, 2007 (2006 \$2,042).

At December 31, 2006, the Management Employees Pension Plan reported a deficiency of \$6,765 (2005 \$165,895) and the Public Service Pension Plan reported a surplus of \$153,024 (2005 deficit \$187,704). At December 31, 2006, the Supplementary Retirement Plan for Public Service Managers had a surplus of \$3,698 (2005 \$10,018).

Note 13 Allowances for Doubtful Accounts and for Losses

	Accounts Receivable (Note 4)	Farm Lending Loans Receivable (Note 5)	Commercial Lending Loans Receivable (Note 5)	Loan Guarantees (Note 14)	Total
Allowances at					
March 31, 2005	\$ 1,129	\$ 27,871	\$ 14,872	\$ 1,186	45,058
Provision (recovery) for 2005-06	280	(1,111)	(1,684)	(362)	(2,877)
Write-offs in 2005-06, net of recoveries	(27)	(495)	(2,025)	-	(2,547)
Allowances at					
March 31, 2006	1,382	26,265	11,163	824	39,634
Provision (recovery) for 2006-07	8,020	(10,310)	4,785	32	2,527
Write-offs in 2006-07, net of recoveries	18	(488)	(738)	-	(1,208)
Allowances at					
March 31, 2007	<u>\$ 9,420</u>	<u>\$ 15,467</u>	<u>\$ 15,210</u>	<u>\$ 856</u>	<u>\$ 40,953</u>

Note 14 Contingencies and Commitments

	2007	2006
Loan guarantees	\$ 26,336	\$ 29,939
Less allowances for losses (Note 13)	(856)	(824)
	25,480	29,115
Legal actions	800	887
Total contingencies	<u>\$ 26,280</u>	<u>\$ 30,002</u>

The majority of loan guarantees relate to loans made by other financial institutions with repayment guaranteed by the Corporation

Legal actions represent amounts claimed or amounts claimed in excess of what was accrued. The outcome of the legal actions is not determinable at this time.

	2007	2006
Approved, undisbursed loans	\$ 67,911	\$ 36,914
Reinsurance	15,600	15,500
Estimated farm loan incentives	11,929	15,569
Operating leases	858	1,003
Total commitments	<u>\$ 96,298</u>	<u>\$ 68,986</u>

The operating lease commitments are for accommodations with terms up to five years.

Note 15 Credit Risk and Interest Risk

(a) Credit Risk

Credit risk is the risk that a debtor may not pay amounts owing thus resulting in a loss.

The following table provides a breakdown of the loan receivables by sector. This analysis provides an indication of the concentration of credit risk on the loan portfolio. Significant information is provided throughout these statements to disclose other concentrations of credit risk.

Note 15 Credit Risk and Interest Risk (continued)

(a) Credit Risk (continued)

	2007	2006
Loans receivable by sector:		
Grain	\$ 420,673	\$ 408,360
Beef	338,593	324,530
Hog	25,831	25,700
Manufacturing	25,138	29,060
Trade - retail and wholesale	24,546	32,317
Accommodation and food service	16,634	22,935
Processors/Feedmills	4,059	4,221
Other	184,496	163,389
	<u>1,039,970</u>	<u>1,010,512</u>
Allowance	<u>(30,677)</u>	<u>(37,428)</u>
	<u>\$ 1,009,293</u>	<u>\$ 973,084</u>

(b) Interest Risk

Interest rate risk is the impact future changes of interest rates have on cash flows and fair value of assets and liabilities. The following provides a breakdown of the gaps between the notes payable and the loan portfolio. Because there are no early repayment penalties on most loan programs, the gap analysis includes an adjustment for expected repayments based on historical patterns.

	Term to Maturity ⁽¹⁾				Not ⁽²⁾ Interest Rate Sensitive	2007	2006
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years		Total	Total
Farm loans	\$ 72,406	\$ 280,080	\$ 238,180	\$ 256,249	\$ (6,168)	\$ 840,747	\$ 810,332
Yield ⁽³⁾	6.46%	6.29%	6.31%	5.84%	-	6.28%	6.59%
Commercial loans	\$ 44,285	\$ 100,999	\$ 24,717	\$ 1,641	\$ (3,096)	\$ 168,546	\$ 162,752
Yield ⁽³⁾	7.08%	7.12%	5.83%	8.67%	-	6.95%	6.94%
Total	\$ 116,691	\$ 381,079	\$ 262,897	\$ 257,890	\$ (9,264)	\$ 1,009,293	\$ 973,084
Yield ⁽³⁾	6.47%	6.36%	6.28%	5.83%	-	6.31%	6.61%
Notes payable							
Province of Alberta	\$ 162,629	\$ 468,414	\$ 220,683	\$ 72,006	\$ 7,639	\$ 931,371	\$ 897,059
Yield ⁽³⁾	5.13%	4.90%	4.99%	4.25%	-	4.96%	5.34%
Net gap before							
prepayment adjustment	\$ (45,938)	\$ (87,335)	\$ 42,214	\$ 185,884	\$ (16,903)	\$ 77,922	\$ 76,025
Estimated prepayment	45,527	76,388	(24,688)	(97,227)	-	-	-
Net gap	<u>\$ (411)</u>	<u>\$ (10,947)</u>	<u>\$ 17,526</u>	<u>\$ 88,657</u>	<u>\$ (16,903)</u>	<u>\$ 77,922</u>	<u>\$ 76,025</u>

Note 15 Credit Risk and Interest Risk (continued)

(b) Interest Risk (continued)

The gap positions represent the mismatching of the financing with the loan portfolio at March 31, 2007. The gaps provide an indication of the potential risks to the Corporation if interest rates change. At March 31, 2007 an immediate and sustained increase in interest rates of 1% would increase the net fair market value of loans and financing for the next fiscal year by \$11,743 based on the net gap before prepayment adjustment. A corresponding decrease in interest rates would decrease the net fair market value of loans and financing by a similar amount over the same period.

This gap analysis does not include the investment portfolio, which is disclosed separately below. Investments are not included because investments relate to insurance program cash flows which are managed separately from lending program cash flows.

The following provides a breakdown of the investment portfolio by term to maturity.

	Term to Maturity ⁽¹⁾				2007	2006
	Within 1 Year	1 to 5 Years	6 to 10 Years	Over 10 Years	Total	Total
Bonds and debentures	\$ 148,042	\$ 86,612	\$ 46,964	\$ 9,935	\$ 291,553	\$ 157,288
Yield ⁽³⁾	4.20%	4.10%	4.43%	5.22%	4.24%	3.96%
Corporate Securities	-	89,176	38,679	-	127,855	78,520
Yield ⁽³⁾	-	4.51%	3.73%	-	4.27%	4.46%
	148,042	175,788	85,643	9,935	419,408	235,808
Accrued interest	589	1,740	1,294	113	3,736	2,651
	<u>\$ 148,631</u>	<u>\$ 177,528</u>	<u>\$ 86,937</u>	<u>\$ 10,048</u>	<u>\$ 423,144</u>	<u>\$ 238,459</u>

⁽¹⁾ For loans, term to maturity reflects the period of time until an interest rate renegotiation date or the maturity date of the loan. For notes payable, term to maturity reflects the contractual maturity date of the debt. The interest rates are fixed until maturity. Repayment is either by semi-annual, annual installments or full repayment at maturity of principal. For investments, term to maturity classifications are based on contractual maturity date of the security.

⁽²⁾ Includes general provisions, accrued interest, accrued beginning farmer incentive and unamortized loan discount.

⁽³⁾ For notes payable and investments, yield represents the rate which discounts future cash receipts to the carrying amount. For loans, yield represents the rate which discounts the stream of future payments from the reporting date to the next interest rate renegotiation date or the rate which discounts future cash receipts to the carrying amount.

Note 16 Related Party Transactions

Sufficient information is provided throughout these statements to disclose significant related party transactions the Corporation entered into, except for the following:

	<u>2007</u>	<u>2006</u>
Interest expense - Province of Alberta	\$45,135	\$44,849
Administration expense - Province of Alberta	508	1,586
Administration expense - Government of Canada	304	374

The Corporation entered into an agreement to deliver the CAIS Inventory Transition Initiative (CITI) as an agent of the Government of Canada. The Corporation paid \$264,400 in CITI claims to eligible participants. The indemnities expense and associated revenues are not included in the Statement of Revenues, Expense and Surplus. Included in Due from the Government of Canada is \$12,026 for funding received but not paid to participants.

Note 17 Crop Reinsurance Funds

The contributions, withdrawals and accumulated surplus positions of the Crop Reinsurance Fund of Alberta and Crop Reinsurance Fund of Canada for Alberta are as follows (see Note 2(f)):

	Crop Reinsurance Fund of Alberta		Crop Reinsurance Fund of Canada for Alberta	
	2007	2006	2007	2006
Opening surplus (deficit)	\$ 14,399	\$ 2,843	\$ 15,265	\$ (29,828)
Contributions	3,314	11,556	3,248	45,093
Closing surplus	<u>\$ 17,713</u>	<u>\$ 14,399</u>	<u>\$ 18,513</u>	<u>\$ 15,265</u>

Note 18 Comparative Figures

The 2006 figures have been reclassified where necessary to conform to 2007 presentation.

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF REVENUE, EXPENSE AND SURPLUS
FOR THE YEAR ENDED MARCH 31, 2007
(in thousands)

	2007	2006	2007	2006	2007
	Canadian Agricultural Income Stabilization	Canadian Agricultural Income Stabilization	Production Insurance	Production Insurance	Lending Insurance
Revenue:					
Premiums from insured persons	\$ -	\$ -	\$ 105,526	\$ 116,968	\$ -
Interest	-	3	452	435	67
Contribution from Province of Alberta	419,258	288,900	179,489	171,628	2
Contribution from Government of Canada	138,578	195,710	90,364	95,818	2
Investment income	7,040	1,431	19,512	10,017	7
Fees and other income	12,734	2,008	67	47	7
	577,610	488,052	395,410	394,913	78
Expense:					
Indemnities	550,550	472,366	136,589	147,013	2
Administration (Schedule 2)	19,739	15,686	19,406	18,454	2
Interest	-	-	-	39	4
Reinsurance	-	-	15,953	58,011	4
Adjusting	-	-	6,516	6,447	4
Farm loan incentives	-	-	-	-	4
Provision (recovery) for doubtful accounts and for losses (Note 13)	7,321	-	588	262	(1)
Selling commissions	-	-	-	-	1
	577,610	488,052	179,052	230,226	6
Surplus (deficit) for the year	-	-	216,358	164,687	1
Surplus at beginning of year	-	-	349,663	184,976	7
Surplus at end of year	\$ -	\$ -	\$ 566,021	\$ 349,663	\$ 8

2006	2007	2006	2007	2006	2007	2006
Lending	Hail Insurance	Hail Insurance	Other	Other	Total	Total
-	\$ 26,886	\$ 24,556	\$ -	\$ -	\$ 132,412	\$ 141,524
68,110	89	77	6	11	68,257	68,636
8,210	-	-	3,235	(705)	604,905	468,033
-	-	-	4,206	(610)	233,148	290,918
449	1,648	2,331	43	-	28,589	14,228
1,929	422	431	345	370	21,192	4,785
78,698	29,045	27,395	7,835	(934)	1,088,503	988,124
-	26,342	21,722	5,574	(2,117)	719,055	638,984
22,218	1,510	1,415	1,807	328	63,208	58,101
44,849	-	1	55	138	45,190	45,027
-	558	548	-	-	16,511	58,559
-	600	525	412	674	7,528	7,646
4,883	-	-	-	-	4,552	4,883
(3,157)	99	18	13	-	2,527	(2,877)
-	2,075	2,233	-	-	2,075	2,233
68,793	31,184	26,462	7,861	(977)	860,646	812,556
9,905	(2,139)	933	(26)	43	227,857	175,568
61,638	40,591	39,658	584	541	462,381	286,813
71,543	\$ 38,452	\$ 40,591	\$ 558	\$ 584	\$ 690,238	\$ 462,381

AGRICULTURE FINANCIAL SERVICES CORPORATION
SCHEDULE OF ADMINISTRATION EXPENSE
FOR THE YEAR ENDED MARCH 31, 2007
 (in thousands)

	2007		2006
	Budget	Actual	Actual
	(Note 3(a))		
Salaries and benefits (Note 12)	\$ 35,358	\$ 36,171	\$ 33,904
Contracted services	8,838	11,051	8,765
Amortization of capital assets	5,300	6,597	5,301
Office accommodation costs	2,782	1,864	3,017
Stationery and supplies	1,486	1,631	1,418
Data processing	952	1,387	1,310
Advertising	999	758	699
Travel and automobile	951	746	705
Training, meetings, seminars, conferences	747	699	478
Professional services	582	546	443
Telecommunications	1,012	519	615
Postage and freight	743	487	481
Equipment, rental and maintenance	374	325	412
Directors' fees and expenses	482	286	413
Miscellaneous	135	141	140
	<u>\$ 60,741</u>	<u>\$ 63,208</u>	<u>\$ 58,101</u>

AGRICULTURE FINANCIAL SERVICES CORPORATION

SCHEDULE OF SALARIES AND BENEFITS

FOR THE YEAR ENDED MARCH 31, 2007

(in thousands)

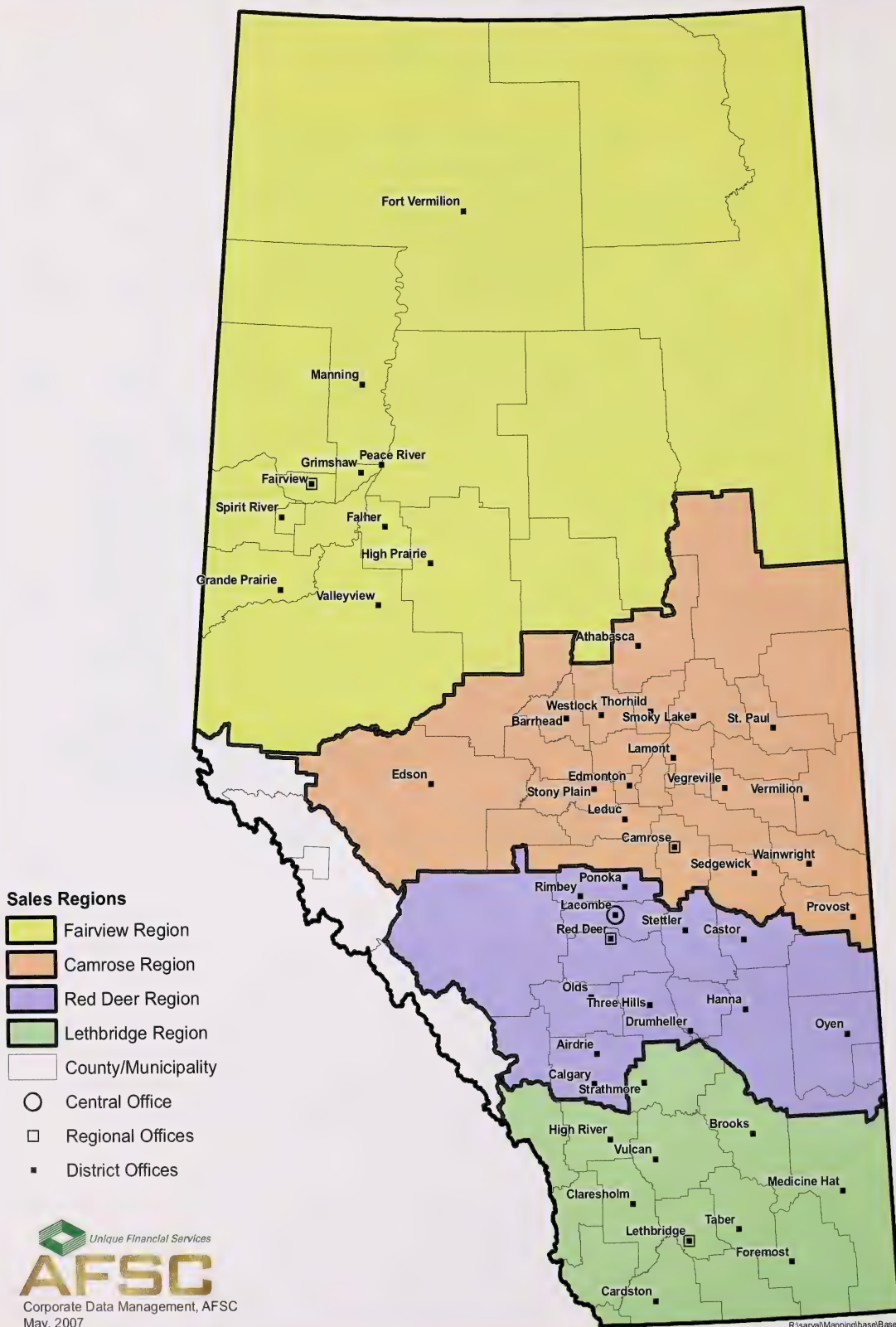
	2007				2006
	Base Salary ⁽¹⁾	Other Cash Benefits ⁽²⁾	Other Non- cash Benefits ⁽³⁾	Total	Total
Chairman of Board	\$ 37	\$ -	\$ -	\$ 37	\$ 72
Board members ⁽⁴⁾	158	-	-	158	233
President and Managing Director	206	79	48	333	281
Executive/Vice-Presidents					
Vice-President, Finance	157	38	36	231	204
Vice-President, Lending Operations	157	26	36	219	194
Vice-President, Risk Management	157	26	36	219	207

(1) Base salaries are fees for Chair and Board members and base pay for employees.

(2) Other cash benefits include bonuses and lump sum payments.

(3) Other non-cash benefits include employer's share of all employee benefits, including health care, dental, medical and vision care allowance, group life insurance benefits, pension and supplementary retirement plan, employment insurance, accidental death/dismemberment and long-term disability insurance, workers' compensation and professional memberships. No amount is included in other non-cash benefits for an automobile provided to the President and Managing Director.

(4) The amounts relate to eight Board members during 2006/07 (eight in 2005/06).



NOTES:

NOTES:

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